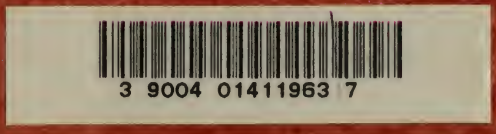
LP
F
5012
1856
N2M



Queen's University
Library

KINGSTON, ONTARIO

(7)

MEMORANDUM,

On behalf of the Shareholders of the Grand Trunk Railway Company of Canada, setting forth the Basis of the Scheme of Financial Assistance, which it is proposed should be granted by the Government and Legislature for the relief of the Enterprise, for the re-establishment of its Commercial Credit and to secure the permanent prosperity of the Provinces.

BY THE

HONORABLE WILLIAM NAPIER.

TORONTO : Printed at the *Leader* Office.

F5012
1856N2M

MEMORANDUM,

On behalf of the Shareholders of the Grand Trunk Railway Company of Canada, setting forth the Basis of the Scheme of Financial Assistance, which it is proposed should be granted by the Government and Legislature for the relief of the Enterprise, for the re-establishment of its Commercial Credit and to secure the permanent prosperity of the Provinces.

BY THE

HONORABLE WILLIAM NAPIER.

Toronto : Printed at the *Leader* Office.

Digitized by the Internet Archive
in 2012 with funding from
Queen's University - University of Toronto Libraries

http://archive.org/details/memorandumonbeha00napi

MEMORANDUM,

BY THE

HONORABLE WILLIAM NAPIER.

On behalf of the Shareholders of the Grand Trunk Railway Company of Canada, setting forth the Basis of the Scheme of Financial Assistance, which it is proposed should be granted by the Government and Legislature for the relief of the Enterprise, for the re-establishment of its Commercial Credit, and to secure the permanent prosperity of the Province.

PREFATORY REMARKS.

The Shareholders have learnt with regret and alarm that causes, which it is useless here to detail—and some of which could scarcely have been foreseen—have placed the Undertaking in a position so perilous, that without prompt and material aid from the Province, the interest falling due on the Provincial Bonds for the accruing half year, cannot be met by the Company; and the most important features of the scheme, viz.: the great Victoria Bridge and the extension of the Line to its western terminus cannot possibly be put in execution; results, the anticipation of which alone has sufficed to destroy the credit of the Enterprise by reducing the market value of the shares to 50 per cent. discount, and to cast a cloud over the commercial prospects of the most favored Colony of Great Britain.

A serious and careful consideration of the circumstances of the case—not merely in view of its actual necessities, but looking to the comprehensive completion and permanent re establishment of this the main artery, and also to the future subsidiary Railway Enterprise of the Country; and with due regard to the experience of similar Undertakings in other countries, when in the same condition, and to those means which have been successfully adopted for the restoration of their financial credit—has led the Shareholders to believe that the same principle of relief, if at once applied by the Government and Legislature, could not possibly fail to ensure results mutually advantageous to the Shareholders and to the Country.

BASIS OF THE SCHEME.

The requirements to be attained are two-fold,

1st. Capital sufficient for the completion of the Undertaking, estimated not to exceed the sum of £1,560,000.

2nd. The rescucitation of the market value of the Enterprise; or. in other words, the restoration of the Shares to their par value.

The attainment of the former does not necessarily ensure the accomplishment of the latter; for the reasons, that the prospects of the line in the Money Market have already been seriously damaged, and that if left alone to its own gradual, though sure development, and without any external support, looking to the magnitude of the Enterprise and to the period of time which must elapse until the increase of traffic to result from the completion of the Victoria Bridge can be accomplished, it will probably be several years before the profits shall afford a dividend on the Share Capital of 5 per cent.; and, during which time therefore, the Company's Debenture and Share Capital must necessarily remain at a depreciation which is ruinous to the Shareholders and damaging to the Railway development and Commercial Credit of the Provinces.

Experience in Europe and elsewhere, particularly in France, in Sardinia, in Austria, in India and in Australia, has more or less proved, that one measure alone is completely adequate, under such circumstances, to maintain the credit of Railway undertakings in the vicissitudes of their infancy, during their construction and pending the gradual development of their traffic up to a certain point viz :—

The support of the State itself or in other words the practical demonstration by the people of the Country, of confidence in their own commercial future, which is best given by a Guarantee of a minimum dividend for a term of years, on the share Capital invested.

The consideration for this aid and for any possible risks of temporary loss (a risk however which has not in any one previous instance resulted in any loss) has been and is, the reversion of the Undertaking in absolute property to the State at the expiration of a term of years—a sacrifice in return for the Guarantee which is cheerfully made by the individual Stockholders, and a boon of the greatest magnitude to the Country, the more especially to a young State as Canada, the magnitude of whose ultimate commercial future it would be presumptuous to attempt to estimate.

Looking therefore to all the circumstances under which the capital of the Grand Trunk Company was subscribed, and to the lamentable prospects of the Undertaking, if left in its existing condition,—the Shareholders earnestly appeal to the Government and Legislature of Canada for a pledge of confidence in this great national Railway Enterprise by a Guarantee of a dividend of 5 per cent. on the share capital of the Undertaking, after the payment of all its fixed charges, the consideration to be, the reversion of the Undertaking in absolute property and in the most efficient working order, at the expiration of, say, 99 years.

Under ordinary circumstances in such Guarantees, the risk

of any possible loss is of course borne by the State, but in this particular instance, remembering the great liberality of the Province towards the Enterprise and the natural disappointment of the people of Canada at its present condition, and looking to their own individual conviction of the ultimate realisation of all the prospects originally hoped for, the Shareholders are anxious also to give a strong mark of their confidence ; and propose, that should any deficiency ensue during the first five years after the completion of the line to Toronto, in respect of the Guarantee, and wishing to preserve intact the surplus revenues of the Provinces, they are ready to agree and to give proper security, that all such annual deficiency, during that time, shall be subscribed by the Company, and be converted into Share Capital, under a like Guarantee by the Provinces, and the amount of which shall be estimated and allotted pro ratâ, among the holders of the Stock, at the time of the granting of the Guarantee.

The advantages which would necessarily result, are as follows :—

That the Commercial Credit of the Undertaking would immediately be re-established.

That the unissued Share and Debenture Capital would at once be realised at par.

That the interest on the Provincial Debentures would be paid by the Company ; the completion of the Line to its western terminus and the construction of the Victoria Bridge would be rapidly accomplished ; and any probable deficiency during the first five years, in respect of the Guarantee, would be provided for ; and all this without the Province being called on to subscribe an additional pound of Capital.

That the doubts now existing in the Money Market, and naturally arising from the existing circumstances ; from individual ignorance of the commercial prospects of Canada ;

and from the disappointment consequent on the published accounts of the traffic receipts on the only section of the line hitherto open, will be completely removed; and that the commercial credit of the Province will be re-established, the more firmly that in the time of difficulty and of gloom, the Government, the Legislature, and people of the Country had shewn, not only their honor in respect of their national obligations, not merely their readiness to share with the Stockholder the risks or profits of the great national Railway enterprise; but that adopting the commercial principles established by the railway experience of Europe, had given, when appealed to, the most complete proof of confidence in their resources and material progress.

It should be added that proper security for the conversion of the probable deficit in respect of the Guarantee during the first five years, might be given to the Government by many arrangements, one of which would be:

The Guarantee not to take effect until the probable amount of the total deficit during the first five years had been agreed to between the representatives of the Government and of the Company, and until the share capital representing that amount had been subscribed, and a deposit equal to the first year's estimated deficit placed in the hands of the Trustees on behalf of the contracting parties, and for the benefit of the Provinces; and the amount necessary to make good each subsequent year's estimated deficit to be deposited in the like manner.

In case, after the first year, the Company should fail to make such deposit as above prescribed, the deficiency to be a first charge on the net profits of the Undertaking for the year.

The Government to pay 5 per cent. interest on all such deposits.

CALCULATIONS ON WHICH ARE GROUNDED THE ESTIMATES OF LOSS OR GAIN IN RESPECT OF A FIVE PER CENT GUARANTEE.

It remains now to show what is the estimated risk to the Province and to the Company in respect of any probable deficiency in the Guarantee during the first five years, estimated to be necessary for the development of the traffic, including the time necessary for the completion of the Line to its Western Terminus and for the construction of the Victotia Bridge.

But in the first place, the Company would engage to complete the Line to the Western Terminus in one and the Victoria Bridge within three complete working seasons from the date of the granting of the Guarantee, thus affording two years for the development of the through traffic, before the termination of the Company's liability in respect to the estimated deficit on the Guarantee.

It is evident then that the estimated receipts of the Line must be the basis of the calculations as to any deficiency or excess on the Guarantee of 5 per cent. on the share capital during the first five years.

The estimated receipts therefore must be as carefully ascertained as circumstance will admit of. The experience of Railways in America in districts similarly populated and of a like character, might be fairly adopted as a guide; but it is fortunate that in this instance, actual experience in Upper and Lower Canada is sufficient to afford data for calculations of the accuracy of which no reasonable doubts can be entertained.

It will be seen on reference to the annexed estimates of traffic (No. 1), during the first five years, that the average receipts are calculated, on the Eastern Section at £15 per mile per week; on the Western Section, at £25 per mile per week; and that assuming the working expenses at 50 per cent. on the gross receipts, and deducting all the fixed charges of the Provinces and of the Company, there remains an annual balance available for Dividend of 2.05 per cent. on the share capital.

The liability of the Province therefore, in respect of the 5 per cent. Guarantee, would be 2.95 per cent. per annum during five years, which deficit would be annually converted into share capital under a like Guarantee of five per cent.

The following data are afforded by the actual experience of the Provinces:

The receipts of the Eastern Section of the Grand Trunk of 428 miles, averaged, during the summer months of the past year..... £18 per mile per week.
During the winter months of the past year..... £12 " "
Thus giving a general average of..... £15 " "

Without adding one pound sterling for the development of the traffic reasonably to be expected during the first five years, the receipts on the Eastern Section are only calculated at the past experience of £15 per mile per week. As regards the Western Line of 500 miles, on the section from Montreal to Brockville of 125 miles, passing through a district which is rather under the average of the whole, the receipts during the Winter from the opening of the Line on the 17th Nov. last year, to the 1st April, averaged £12 per mile per week, and were for the last week of that period £18 per mile per week. On the Toronto and Hamilton Line of forty miles, opened on the 19th Nov. last, the receipts for Passengers alone have averaged during the Winter, £30 per mile, per week; the mean receipts therefor per mile, per week, during the Winter months, on the Eastern and Western extremities of the entire Western section have been £21 per mile per week. The estimated average during the five years is only placed at £25 per mile per week, which calculation is thus subdivided,

Passengers, say.....	£10	per mile,	per week.
Mails.....	3	"	"
Goods.....	12	"	"
Total,	£25	"	"

These are the reasonable data on which is calculated the maximum annual deficit of 2.95 per cent. on the share capital during the first five years, and which it is proposed for that time to convert into share capital under a like Guarantee of 5 per cent. by the Provinces.

By reference to the estimate of traffic for the second period of five years, during which time the through traffic, and much subsidiary local traffic would be fairly developed, the receipts are modestly stated for the Eastern section at an increase to £20 per mile per week; for the Western section to £35 per mile, per week; which it will be seen by the annexed estimates for the second period of five years (No. 2), will more than cover the Guarantee of 5 per cent. on the share capital.

For the third period of five years, the receipts are placed, for the Eastern Section at £25 permile, per week; for the Western Section at £40 per mile, per week, estimates, (No. 3), the correctness of which cannot reasonably be disputed, and which leave a surplus of 2.80 per cent. on the share capital.

GENERAL APPLICATION OF THE GUARANTEE PRINCIPLE.

In conclusion, the Shareholders would urge upon the Government and Legislature, the application of the principles of a minimum Guarantee for the same consideration, to all the subsidiary Railway Enterprise which shall receive an especial recommendation for the same, by the sanction of the Legislature, as undoubtedly profitable and necessary for the local development of the Provinces, when not in competition with, and where constituting profitable feeders to the National Trunk Line

The risk of the Guarantees on such local Railways, though assumed by the Government, should be shared in due proportions by the Municipalities of the Districts through which the Lines would pass, or if as feeders to the, main Trunk Line, in due proportions by the Municipalities and by the Grand Trunk Company.

It is evident that the risk on the actual amount guaranteed by the Provinces on the Main Trunk, and on the subsidiary local Enterprise, would not be represented by the total amount of the capital invested; for as soon as the through traffic from West to East, on the Main Line, and the local traffic shall have become developed, the Guarantee on the Trunk would become merely nominal, and would remain only on the subsidiary Railways, which would also in time cover their own liabilities.

The examination to which each independent local Railway or tributary feeder to the Grand Trunk Line, requesting such a Guarantee would be subjected by the Legislature —(the municipality or the Grand Trunk Company, as the case might be, appearing in evidence for or against the same,) would be sufficient protection to preclude any abuse of the privilege, while on the other hand English Capital would thus be obtained to any amount for such a secure investment, and an extraordinary and incalculable commercial impetus would be given by the development of the inexhaustible resources of the country in Wheat, in Timber and in Minerals.

Under the system of Guarantee applied to the Main Trunk Line, the Company in its own interest would not hesitate to make arrangements with, and lease and work on equitable terms, local Railways already constructed or in course of construction, and which left to their own unaided support, have not hitherto proved remunerative, looking even to the fact, that the profits anticipated are sought from the local development of their districts, rather than from any return upon the Capital invested.

FINALLY.

It will certainly be admitted on investigation of the annexed Estimates of Traffic (Nos. 1, 2, 3), that they by no means bear a relative proportion in their increase, during a term of fifteen years, to the increase to be anticipated in

that time to the population—the assessed value—the productions and Revenue of the Provinces—at least, if the experience of the last fifteen years may be accepted as an indication of the future prosperity of the country; and if this presumption be justified, it produces a double effect in favor of the Guarantee Scheme, for while the probabilities of any deficit on the Guarantee after the first five years would be lessened, the Revenues of the Province would be the more able to bear any moderate loss.

Surely also, if, as is undoubtedly true, the branch lines of railway now made, and proposed, are subscribed for, less as an investment by the resident inhabitants, than for the profit which will accrue to each individual by the facilities to be afforded for traffic and business, and by the increased value to be expected in the whole district and in the towns and villages to be traversed by the railways; and if Municipalities are justified in raising funds for such purpose for the benefit of the common property; surely in like manner the Provinces may reasonably afford to run some trifling risk for the general good; a risk which is undoubtedly reduced to a minimum, and even if incurred after the fifth year, would certainly find its equivalent in the increased prosperity and happiness of the population due to the rapid material progress always induced by railway development.

These suggestions are respectfully submitted to the consideration of His Excellency the Governor General, of the Government, and of the Canadian Board of Directors as the basis of a comprehensive and enlightened scheme which in the opinion of the Shareholders would prove mutually beneficial to the Grand Trunk Company and to the Provinces, and which would confer lasting honor on the Ministry, who should propose and on the Members of the Legislature who should put the same in execution by an Enactment, applying the Guarantee principle to the Grand Trunk Railway Company, and to all Railways especially recommended by the Legislature.

It has thus been shewn that the effect of a minimum guarantee of 5 per cent. dividend on the share capital of the Company would be.

That the credit of the enterprise would be raised to par.

That the Undertaking, including the extension of the Line to its western terminus, and the Victoria Bridge, would be rapidly completed.

That the Confidence of the Provinces in their commercial future would be asserted and established before all the world.

And all this without calling upon the Provinces to raise one shilling—resulting in a combination of mutual advantages to the Provinces and to the Company, which, it is respectfully submitted, no other Scheme can possibly present.

On behalf of the Shareholders of the Grand Trunk Railway Company of Canada.

WILLIAM NAPIER.

Toronto, 22nd April, 1856.

TABLE, NO. 1.

GRAND TRUNK RAILWAY OF CANADA.

Shareholders' Proposition of a Guarantee of 5 per cent. on the Share Capital of the Company.

Average Estimate of Receipts and Expenditure; first 5 years.

To 50 per cent. working expenses*.....		£ 491,920
" 6 per cent. on Province Bonds £ 3,111,500.....	£ 186,690	
" Atlantic and St. Lawrence Lease.....	73,564	
" 6 per cent. on Company's Bonds, £2,144,500	128,670	
" Reserve 1½ per cent. on gross earnings.	14,787	403,711
" Balance available for Dividend £2.05 per cent. on Share Capital, £4,306,400..		88,209
		£ 983,840

By Receipts on 500 miles of Western Section at £ 25 per mile per week.....	£ 650,000
" Receipts on 428 miles of Eastern Section at £ 15 per mile per week.....	333,840
	£ 983,840

Leaving annual deficiency to be provided to complete 5 per cent. Guarantee on Share Capital of £ 127,111

Total deficiency for 5 years £635,555, which being converted into Share Capital as proposed will make the total amount of Share Capital at the end of 5 years £4,941,955.

Toronto, April 22, 1856.

WILLIAM NAPIER.

* Divided thus, say 60 per cent. for Eastern Section, or..... £193,420
45 per cent. for Western Section, or..... 292,500
£491,920

TABLE, NO. 2.

GRAND TRUNK RAILWAY OF CANADA.

Shareholders' Proposition of a Guarantee of 5½ per cent. on the Share Capital of the Company.

Average Estimate of Receipts Expenditure; second 5 years.

To 50 per cent. Working Expenses*.....		£ 677,560	By Receipts on 500 miles of Western Section at £35 per mile per week.....	£ 910,000
" 6 per c. on Province Bonds, £3,111,500.	£ 186,690		" Receipts on 428 miles of Eastern Section at £20 per mile per week.....	445,120
" Atlantic and St. Lawrence Lease.....	73,564			
" 6 per c. on Company's Bonds, £2,144,500.	128,670			
" Reserve, 1½ per cent. on gross earnings..	20,326			
		409,250		
" To Balance available for dividend of £5.43 per cent. on Share Capital of £4,941,955.....		268,310		
		£ 1,355,120		£ 1,355,120.

Thus shewing a excess of net profits over the Guarantee of £0.43 per cent.

Toronto, April 22, 1856.

WILLIAM NAPIER.

* Divided thus say 60 per cent. for Eastern Section, or..... £268,060
45 per cent. for Western Section, or..... 409,500
£677,560

TABLE, NO. 3.

GRAND TRUNK RAILWAY OF CANADA.

Shareholders' Proposition of a Guarantee of 5 per cent on the Share Capital of the Company.

Average Estimate of Receipts and Expenditure ; third 5 years.

To 50 per cent. Working Expenses*		£ 798,200	By Receipts on 500 miles of Western Section, at £ 40 per mile per week.....	£ 1,040,000
" 6 per c. on Province Bonds, £3,111,500.	£ 186,690		" Receipts on 428 miles of Eastern Section, at £ 25 per mile per week.....	556,400
" Atlantic and St. Lawrence Lease.....	73,564			
" 6 per c. on Company's Bonds, £2,144,500..	128,670			
" Reserve, 1½ per cent. on gross earnings..0	23,946			
		412,870		
" Balance available for dividend of £ 7,80 per cent. on Share Capital £4,941,955.		385,330		
		£1,596,400		£ 1,596,400

Thus shewing an excess of net profits over the Guarantee of £ 2.80 per cent.

WILLIAM NAPIER

Toronto, April 22, 1856.

* Divided thus, say 60 per cent Eastern Section, or £333,200
45 per cent. on Western Section, or 465,000
£798,200

JAN. 28/31